

PINEVILLE INDEPENDENT SCHOOL
Pineville, Kentucky

AUDITED FINANCIAL STATEMENTS
for the year ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Pineville Independent School
Pineville, Kentucky 40977

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pineville Independent School as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and information regarding pension expense on pages three and four and 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 8, 2017 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barry D. Daulton, CPA, PSC
Somerset, Kentucky
November 8, 2017

PINEVILLE INDEPENDENT SCHOOL
Pineville, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
For the year ended June 30, 2017
(Unaudited)

Management of the Pineville Independent School (Board) provides to readers and users of the accompanying financial statements an analysis and overview presentation of the Board's financial activities for the year ended June 30, 2017. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

Financial Highlights

General revenues totaled \$3,978,433 representing 77.2% of all governmental revenues. General revenues consist primarily of tax assessments and state funding allocations. Program specific revenues of \$1,178,500 accounted for the remaining revenues. Program specific revenues include charges for services, sales, grants, contributions, etc. Of the total general fund revenue, approximately \$547,543 was received in the form of local taxation and investment income.

District-Wide Financial Statements

The accompanying district-wide financial statements are designed to provide readers and users with a generally broad descriptive overview of the Board's financial activities. The statements are similar in nature to private-sector (non-governmental) statements.

The Statement of Net Position contains information on all Board assets and liabilities. The difference between these two amounts is reported as net position. When considered historically, increases or decreases in net position may provide a general indication of overall improvement or deterioration of the Board's financial condition. In the Statement of Activities, changes in net position for the most recent fiscal year are presented.

Outlined in these financial statements are functions of the Board which are supported by local taxation and governmental activities. Governmental activities include, but are not limited to, instruction, support services, plant operation and maintenance and student transportation.

Fund Financial Statements

Fund financial statements present a related group of accounts which maintain resources for a specific activity. The MUNIS system is a mandated uniform system and chart of accounts used by all Kentucky public school districts. Use of fund accounting ensures compliance with finance-related statutory requirements. Board funds are separated into three categories; governmental, proprietary and fiduciary. Fiduciary (or trust) funds, commonly known as activity funds, aid in student education and support. Fiduciary funds are support by outside activities such as fund-raising and ticket sales. Governmental funds report all other Board activities.

Notes to Financial Statements

Additional information necessary to better understand the district-wide financial statements is presented in the notes to financial statements on pages 17 through 33.

District-Wide Financial Analysis and Budgetary Implications

The financial statements contained herein present an overall picture of limited financial resources operating within budgetary constraints. Due to limited revenues with which to fund all required operating expenditures, the Board has minimal cash reserves.

Condensed Comparative Data

Net position for the period ending	June 30, 2017	June 30, 2016
Current assets	\$ 549,240	\$ 377,969
Noncurrent assets	6,969,305	7,155,407
Deferred outflows	150,828	299,705
Total assets and deferred outflows	7,669,373	7,833,081
Current liabilities	501,682	570,817
Noncurrent liabilities	4,643,605	4,844,429
Deferred inflows	48,089	35,584
Total liabilities and deferred inflows	5,193,376	5,450,830
Net position		
Invested in capital assets (net of debt)	3,037,915	2,476,278
Restricted fund balance	114,997	25,855
Unrestricted fund balance	(676,915)	(118,699)
Total net position	2,475,997	2,383,434
Governmental revenues	5,137,386	5,430,237
Business type revenues	396,307	321,427
Total revenues	5,533,693	5,751,664
Governmental expenses	5,096,372	4,756,469
Business type expenses	344,758	310,413
Total expenses	5,441,130	5,066,882
Changes in net position	92,563	684,782
Net position, beginning	2,383,434	1,698,652
Net position, ending	\$ 2,475,997	\$ 2,383,434

Financial Management

Interested readers and users, taxpayers, citizens and creditors are encouraged to contact Board administration with questions regarding this report or requests for additional information. The comments should be directed to Russell Thompson, Superintendent or Anita Taylor, Finance Officer at (606) 337-5701. The District mailing address is 401 Virginia Avenue, Pineville KY 40977.

PINEVILLE INDEPENDENT SCHOOL
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 372,402	\$ 63,352	\$ 435,754
Accounts receivable	95,911	15,364	111,275
Inventories for consumption	-	2,211	2,211
Capital assets:			-
Land	305,115	-	305,115
Land improvements	302,989	-	302,989
Other capital assets, net of depreciation	6,361,201	-	6,361,201
TOTAL ASSETS	7,437,618	80,927	7,518,545
DEFERRED OUTFLOWS			
Deferred outflows related to pension expense	150,828	-	150,828
Total deferred outflows	150,828	-	150,828
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 7,588,446	\$ 80,927	\$ 7,669,373
LIABILITIES			
Accounts payable	\$ 36,981	\$ 5,557	\$ 42,538
Accrued payroll liabilities	27,510	-	27,510
Deferred revenue	42,973	-	42,973
Due and payable within one year:			
Capital lease obligations	20,674	-	20,674
Bond obligations	263,658	-	263,658
Interest payable	104,329	-	104,329
Due and payable after one year:			
Capital lease obligations	98,865	-	98,865
Bond obligations	3,548,193	-	3,548,193
Net pension liability - CERS	996,547	-	996,547
TOTAL LIABILITIES	5,139,730	5,557	5,145,287
DEFERRED INFLOWS			
Deferred inflows related to pension expense	48,089	-	48,089
Total deferred inflows	48,089	-	48,089
TOTAL LIABILITIES AND DEFERRED INFLOWS	5,187,819	5,557	5,193,376
NET POSITION			
Net investment in capital assets	3,037,915	-	3,037,915
Restricted			
Restricted for capital projects	54,370	58,416	112,786
Restricted for inventory	-	2,211	2,211
Unrestricted	(691,658)	14,743	(676,915)
TOTAL NET POSITION	\$ 2,400,627	\$ 75,370	\$ 2,475,997

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOL
STATEMENT OF ACTIVITIES - DISTRICT WIDE
for the year ended June 30, 2017

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Governmental activities							
Instructional	\$ 2,702,107		\$ 544,179		\$ (2,157,928)		\$ (2,157,928)
Student support services	344,108		27,858		(316,250)		(316,250)
Staff support services	209,376		73,510		(135,866)		(135,866)
District administration	372,562		10,597		(361,965)		(361,965)
School administration	174,340				(174,340)		(174,340)
Business support services	133,545				(133,545)		(133,545)
Plant operation and maintenance	571,383				(571,383)		(571,383)
Student transportation	101,931		5,822		(96,109)		(96,109)
Community service	61,792		61,792		-		-
Debt service	425,228			391,142	(34,086)		(34,086)
Total governmental activities	5,096,372		723,758	391,142	(3,981,472)		(3,981,472)
Business-type activities							
Food service	342,928	22,321	372,778			52,171	52,171
Community service operations	1,830	-	-			(1,830)	(1,830)
Total business-type activities	344,758	22,321	372,778			50,341	50,341
Total school district	\$ 5,441,130	\$ 22,321	\$ 1,096,536	\$ 391,142	(3,981,472)	50,341	(3,931,131)
General revenues:							
Taxes							
State aid - formula grants					542,240		542,240
Investment earnings					3,441,410		3,441,410
Miscellaneous revenues					5,123		5,123
Operating transfers					33,713		33,713
Total general revenues					-	1,208	1,208
Change in net position					4,022,486	1,208	4,023,694
Net position - July 1, 2016					41,014	51,549	92,563
Net position - June 30, 2017					2,359,613	23,821	2,383,434
					\$ 2,400,627	\$ 75,370	\$ 2,475,997

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	SPECIAL REVENUE	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 339,269	\$ (21,237)	\$ 54,370	\$ 372,402
Accounts receivable	<u>24,606</u>	<u>71,305</u>	<u>-</u>	<u>95,911</u>
TOTAL ASSETS	<u>\$ 363,875</u>	<u>\$ 50,068</u>	<u>\$ 54,370</u>	<u>\$ 468,313</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred revenue	\$ -	\$ 42,973	\$ -	\$ 42,973
Accrued payroll liabilities	27,510	\$ -	-	27,510
Accounts payable	<u>29,886</u>	<u>7,095</u>	<u>-</u>	<u>36,981</u>
TOTAL LIABILITIES	57,396	50,068	-	107,464
FUND BALANCE				
Restricted	-	-	54,370	54,370
Committed	-	-	-	-
Unassigned	<u>306,479</u>	<u>-</u>	<u>-</u>	<u>306,479</u>
TOTAL FUND BALANCES	<u>306,479</u>	<u>-</u>	<u>54,370</u>	<u>360,849</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 363,875</u>	<u>\$ 50,068</u>	<u>\$ 54,370</u>	<u>\$ 468,313</u>

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENT OF NET POSITION
June 30, 2017**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION
ARE DIFFERENT BECAUSE:

Total governmental fund balance	\$ 360,849
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	6,969,305
Deferred outflows related to pension expense	150,828
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds, but are presented in the statement of net position	
Bonds payable	(3,811,851)
Capital leases payable	(119,539)
Interest payable	(104,329)
Deferred inflows related to pension expense	(48,089)
Net pension liability - CERS	(996,547)
Total net position - governmental	<u>\$ 2,400,627</u>

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOLS
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2017

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 12,520	\$ 41,850	\$ -	\$ 54,370
TOTAL ASSETS	<u>\$ 12,520</u>	<u>\$ 41,850</u>	<u>\$ -</u>	<u>\$ 54,370</u>
LIABILITIES				
Accounts payable	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES				
Restricted	12,520	41,850		\$ 54,370
Unassigned	-	-	-	-
Total fund balance	<u>12,520</u>	<u>41,850</u>	<u>-</u>	<u>\$ 54,370</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 12,520</u>	<u>\$ 41,850</u>	<u>\$ -</u>	<u>\$ 54,370</u>

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2017

	GENERAL FUND	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes	\$ 479,170	\$ -	\$ 63,250	\$ 542,420
Earnings on investments	5,123	-	-	5,123
State sources (See Note K)	3,441,410	277,597	391,142	4,110,149
Federal sources	32,155	433,683	-	465,838
Other sources	20,575	12,478	-	33,053
Total revenues	3,978,433	723,758	454,392	5,156,583
Expenditures				
Instructional	2,106,312	565,193	-	2,671,505
Student support services	310,226	27,858	-	338,084
Staff support services	135,528	73,510	-	209,038
District administration	297,188	10,597	-	307,785
School administration	174,261	-	-	174,261
Business support services	133,545	-	-	133,545
Plant operation/maintenance	487,459	-	-	487,459
Student transportation	96,109	5,822	-	101,931
Food service operation	-	-	-	-
Community service	-	61,792	-	61,792
Debt service	24,022	-	401,206	425,228
Total expenditures	3,764,650	744,772	401,206	4,910,628
Excess (deficit) of revenues over expenditures	213,783	(21,014)	53,186	245,955
Other financing sources (uses):				
Operating transfers in	-	21,014	365,327	386,341
Operating transfers out	(22,222)	-	(365,327)	(387,549)
Total other financing sources (uses)	(22,222)	21,014	-	(1,208)
Net change in fund balances	191,561	-	53,186	244,747
Fund balances July 1, 2016	114,918	-	1,184	116,102
Fund balances June 30, 2017	\$ 306,479	\$ -	\$ 54,370	\$ 360,849

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

June 30, 2017

Amounts reported for governmental activities in the statement of position are different because:

Net changes - governmental funds:	\$ 244,747
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.	
Capital outlays	-
Depreciation expense	(185,744)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Principal paid	259,174
Capital leases paid	20,163
Net pension liability due to CERS is not reported in the governmental fund financial statements, but is reported in the statement of activities (net)	(84,571)
Deferred outflows related to pension expense	(150,828)
Deferred inflows related to pension expense	48,089
Interest expense in governmental fund financial statements, expensed as incurred in statement of activities	(110,016)
Changes in net position - governmental funds	<u>\$ 41,014</u>

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2017

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>DEBT SERVICE</u>	<u>TOTAL NON-MAJOR GOV'T FUNDS</u>
REVENUES				
Taxes	\$ -	\$ 63,250	\$ -	\$ 63,250
State sources	<u>47,397</u>	<u>307,866</u>	<u>35,879</u>	<u>391,142</u>
Total revenues	47,397	371,116	35,879	454,392
EXPENDITURES				
Debt service	<u>-</u>	<u>-</u>	<u>(401,206)</u>	<u>(401,206)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>(401,206)</u>	<u>(401,206)</u>
Excess (deficit) of revenues over expenditures	47,397	371,116	(365,327)	53,186
Operating transfers in	-	-	365,327	365,327
Operating transfers out	<u>(36,061)</u>	<u>(329,266)</u>	<u>-</u>	<u>(365,327)</u>
Net change in fund balance	<u>11,336</u>	<u>41,850</u>	<u>-</u>	<u>53,186</u>
Fund balance July 1, 2016	<u>1,184</u>	<u>-</u>	<u>-</u>	<u>1,184</u>
Fund balance June 30, 2017	<u>\$ 12,520</u>	<u>\$ 41,850</u>	<u>\$ -</u>	<u>\$ 54,370</u>

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOL
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2017

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
ASSETS			
Current assets			
Cash and cash equivalents	\$ 62,286	\$ 1,066	\$ 63,352
Accounts receivable	15,364	-	15,364
Inventories for consumption	2,211	-	2,211
Total current assets	79,861	1,066	\$ 80,927
Noncurrent assets			
Invested in capital assets, net of depreciation	-	-	-
TOTAL ASSETS	\$ 79,861	\$ 1,066	\$ 80,927
LIABILITIES			
LIABILITIES			
Accounts payable	\$ 5,557	\$ -	\$ 5,557
TOTAL LIABILITIES	5,557	-	5,557
NET POSITION			
Invested in capital assets	-	-	-
Restricted for inventory	2,211	-	2,211
Restricted - food service capital assets	58,416	-	58,416
Unrestricted	13,677	1,066	14,743
TOTAL NET POSITION	\$ 74,304	\$ 1,066	\$ 75,370

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
PROPRIETARY FUNDS
for the year ended June 30, 2017

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 22,321		\$ 22,321
Other operating revenues	-		
Total operating revenues	<u>22,321</u>		<u>22,321</u>
OPERATING EXPENSES			
Community services	-	1,830	1,830
Food service operation	<u>342,928</u>		<u>342,928</u>
Total operating expenses	<u>342,928</u>	<u>1,830</u>	<u>344,758</u>
Operating income (loss)	(320,607)	(1,830)	(322,437)
NONOPERATING REVENUES (EXPENSES)			
Federal grants	314,905		314,905
State grants and on-behalf payments	39,000	-	39,000
Donated commodities	<u>18,873</u>	<u>-</u>	<u>18,873</u>
Total nonoperating revenues	<u>372,778</u>		<u>372,778</u>
Income (loss) before capital contributions	52,171		
Operating transfers in	-	1,208	1,208
Change in net position	<u>52,171</u>	<u>(622)</u>	<u>51,549</u>
Net position July 1, 2016	<u>22,133</u>	<u>1,688</u>	<u>23,821</u>
Net position June 30, 2017	<u>\$ 74,304</u>	<u>\$ 1,066</u>	<u>\$ 75,370</u>

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOL
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2017

	<u>Food Service</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from lunchroom sales	\$ 22,321	\$ -	\$ 22,321
Cash received for other services	-	-	-
Cash received from federal and state reimbursements	352,092	-	352,092
Cash payments to employees for services	(105,793)	-	(105,793)
Cash payments to suppliers	(208,540)	-	(208,540)
Cash payments for other operating expenses	<u>(8,347)</u>	<u>(1,830)</u>	<u>(10,177)</u>
Net cash provided (used) by operating activities	<u>51,733</u>	<u>(1,830)</u>	<u>\$ 49,903</u>
Cash flows from financing activities:			
Operating transfers in	-	1,208	1,208
Net increase (decrease) in cash and cash equivalents	<u>51,733</u>	<u>(622)</u>	<u>51,111</u>
Cash and cash equivalents at beginning of year	10,553	1,688	12,241
Cash and cash equivalents at end of year	<u>\$ 62,286</u>	<u>\$ 1,066</u>	<u>\$ 63,352</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	(320,607)	(1,830)	(322,437)
Non-operating revenues	372,778	-	372,778
Effect of Increases and Decreases in Current Assets and Liabilities:			
Accounts payable and receivable	(796)	-	(796)
Depreciation	358	-	358
Net cash provided by operating activities	<u>\$ 51,733</u>	<u>\$ (1,830)</u>	<u>\$ 49,903</u>
Schedule of non-cash transactions			
Donated commodities	<u>\$ 18,873</u>	<u>\$ -</u>	<u>\$ 18,873</u>

The accompanying notes are an integral part of these statements.

PINEVILLE INDEPENDENT SCHOOL
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2017

	<u>Student Activity Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 31,292</u>
TOTAL ASSETS	<u><u>31,292</u></u>
LIABILITIES	
Owed to student groups	<u>31,292</u>
TOTAL LIABILITIES	<u><u>31,292</u></u>
TOTAL NET POSITION	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these statements.

**PINEVILLE INDEPENDENT SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Pineville Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Pineville Independent School (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision-making authority, the power to designate management and the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Pineville Independent Schools. The financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as booster organizations, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

The accounting policies of the Pineville Independent Schools substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

District-Wide and Fund Financial Statements

The statement of position and the statement of activities are district-wide financial statements. They report information on all of the District's nonfiduciary activities with interfund activities removed. Governmental activities include programs supported primarily by taxes, state funding and allocations and other intergovernmental revenues.

Fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary and fiduciary. Because the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

PINEVILLE INDEPENDENT SCHOOL
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balance are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Federal Financial Assistance included in this report. Accounts receivable in the Special Revenue Fund represent amounts due to the District through various grant agreements. Conversely, deferred revenues represent funds received by the District not yet spent under grant agreements.
- C. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the Kentucky School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.

PINEVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts for in-kind contribution of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance.

IV. Fiduciary Fund Type

The Activity Fund consists of Agency funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

V. Property Taxes

The District's property taxes are levied each year on the assessed value listed as of the prior January 1 for all real and business tangible property located in the District.

Property taxes collected are recorded as revenues in the fund for which they were levied.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

PINEVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. During the budgetary process, revenues are projected in cash amounts to be received and expenditures are projected in cash amounts to be paid. Under GAAP, revenues and expenditures are recorded when susceptible to accrual.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Funds which record inventory using the accrual basis of accounting.

Encumbrances

Encumbrances are reported as a reservation of the fund balance. They are not reported as disbursements until paid.

Payroll

District employees are paid twice monthly throughout the calendar year. Payroll checks for the summer months were processed prior to June 30, 2017. The cash balances on June 30, 2017 have been reduced by the outstanding payroll checks.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Balances

Restricted fund balances arise from external constraints (debt covenants, regulations, constitutional provisions, etc.) Committed fund balances are imposed by formal actions of the Board. Assigned

PINEVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

fund balances are intended by the Board to be used for specific purposes, but are not formally restricted or committed. Unassigned fund balances are the residual amounts that are neither restricted, committed nor assigned for any specific purpose. It is the District's policy to first spend from unrestricted funds.

Change in Accounting Principle

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to government pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. GASB 68 requires retrospective application. Since the District only presents one year of financial information, the beginning net position was adjusted to reflect the retrospective application. See Note M for additional information pertaining to the restatement of net position.

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$ 435,754. Of the total cash balance, \$ 250,000 was covered by Federal Depository Insurance.

Cash and cash equivalents at June 30, 2017, exclusive of activity and debt service funds, consisted of the following:

First State Financial	Operating Account	<u>\$ 435,754</u>
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NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

On July 6, 1992 the District formed the Pineville Independent School District Finance Corporation to act as an agency of the District in the acquisition and financing of public school projects undertaken by the District's Board of Education.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the City of Pineville, Pineville Independent Schools Finance Corporation and the Kentucky School Facilities Construction Commission to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District entered into "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

**PINEVILLE INDEPENDENT SCHOOL
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017**

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS, continued

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Pineville Independent Schools Finance Corporation and the Kentucky School Facilities Construction Commission.

In December 2014, the District refunded the 2010 issue, resulting in savings of \$186,168 over the life of the debt service.

The debt service schedule on page 33 represents payments due for all issues after refunding.

NOTE D - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2017, this amount has not been accrued because it is immaterial to the financial statements as of this date.

NOTE E - RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System (CERS) covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System (KTRS) covers positions requiring teaching certification or otherwise requiring a college degree.

General Information About the County Employees Retirement System (CERS)

Plan description – Employees whose positions do not require beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provision of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that included financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov>.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old
		At least 25 years of service and any age

PINEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE E – RETIREMENT PLANS, continued

Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age = 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age = 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement benefits are based on a factor of the number of years of service and hire date multiplied by the average of the highest five years earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employees must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

Contributions – Required contributions by the employee are based on the following tiers:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District matches at a rate of 17.76% of the employee's total covered compensation. The District's matching contributions total \$86,415 for the year ended June 30, 2017.

General Information about the Teachers' Retirement System of the Commonwealth of Kentucky (KTRS)

Plan description – The District's teaching certified employees and other employees whose positions require at least a college degree are provided pensions through KTRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

PINEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE E – RETIREMENT PLANS, continued

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3% to be used in their benefit calculation. Effective July 1, 2008, the system has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. KTRS also provides disability for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions- Contribution rates are established by KRS. Non-university members are required to contribute 12.855% of their salaries to the System. The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description- In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

PINEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE E - RETIREMENT PLANS, continued

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy - In order to fund the post-retirement healthcare benefit, six percent (6.0%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.0%) is paid by member contributions and three quarter percent (.75%) from state appropriation and two and one-quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Pineville Independent School District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ <u>996,547</u>
State's proportionate share of the net pension liability associated with the District	\$ <u>16,129,543</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's portion was .02024 percent. For the year ended June 30, 2017 the District recognized pension expense of \$110,530 related to CERS.

PINEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE E – RETIREMENT PLANS, continued

The District reported approximate deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,351	\$ -
Changes of assumptions	52,792	-
Net difference between projected and actual earning on pension plan investments	93,685	-
Changes in proportion and differences between District Contributions and proportionate share of contributions	-	48,089
District contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 150,828</u>	<u>\$ 48,089</u>

\$150,828 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	89,217
2019	42,818
2020	37,683

Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, mortality rates for the period after service retirement are according to the RP-2000 Combined Mortality Table for all retired employees and beneficiaries.

PINEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE E – RETIREMENT PLANS, continued

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of one year for females. The last experience study was performed in 2011, and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a ten year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U. S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	<u>2.0%</u>	1.5%
Total	<u>100.%</u>	

PINEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE E – RETIREMENT PLANS, continued

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.20%. The projection of cash flows used to determine the discount rate assumed that plan member contribution rates, and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments through 2038, and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate – The following table presents the District's net pension liability calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	1,136,368	913,039	674,088
KTRS	3.20%	4.20%	5.20%
District's proportionate share of net pension liability	-	-	-
System's Net Pension Liability	\$37,937,230,000	\$30,924,069,000	\$25,168,197,000

Pension plan fiduciary net positions – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

PINEVILLE INDEPENDENT SCHOOL
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE F - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE G - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE H - LUNCHROOM ACCOUNT/COMMODITIES

The Lunchroom Account keeps a current monthly inventory of the school in the Food Service Director's office at the Pineville Independent Board of Education. The Food Service Director has filed timely all required reports and requests for reimbursement.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District has obtained insurance for workers compensation, errors and omissions, and general liability coverage.

Past and present members of Kentucky School Boards Insurance Trust (KSBIT) were required to pay additional, retroactive premiums to cover a \$60 million deficit in the Trust's general liability and workers' compensation pools. The District opted to pay their assessment through a KISTA bond issue. The District's first installment is due in August 2015 and will be paid in ten annual payments. (See page 33)

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

PINEVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE J - DEFICIT OPERATING/FUND BALANCES

At June 30, 2017, the following funds experienced a current year deficit of expenditures over revenue:

Special revenue	\$ (21,014)
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NOTE K - ON BEHALF PAYMENTS

The Commonwealth of Kentucky indirectly contributes funds of varying benefits to the District. These funds, known as "on-behalf payments" are represented as revenue from state sources in the appropriate financial statements. These funds are not budgeted by the District. Corresponding amounts are entered to reflect the appropriate expense for the contributed funds.

KTRS	\$ 314,875
Health insurance	476,794
Life insurance	736
Administrative fee	5,848
HRA/Dental/Vision	15,575
Federal reimbursement	(33,278)
KEN services	42,629
MUNIS software and services	1,271
Virus protection software	540
SFCC debt service	<u>35,879</u>
Total On-Behalf Payments	<u>\$ 860,869</u>

NOTE L - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is detailed on page 32.

PINEVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE M - KTRS AND CERS NET PENSION LIABILITY

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to government pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

PINEVILLE INDEPENDENT SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

CAPITAL ASSET NOTE DISCLOSURE

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Land and improvements	608,104	-	-	608,104
Buildings and improvements	9,616,711	-	-	9,616,711
Technology equipment	639,280	-	-	639,280
Vehicles	255,669	-	-	255,669
General equipment	279,639	-	-	279,639
Totals at historical cost	11,399,403	-	-	11,399,403
Less accumulated depreciation	(4,244,354)	185,744	-	(4,430,098)
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u>\$ 7,155,049</u>	<u>\$ (185,744)</u>	<u>\$ -</u>	<u>\$ 6,969,305</u>
PROPRIETARY ACTIVITIES				
Food service equipment	105,744	-	-	105,744
Totals at historical cost	105,744	-	-	105,744
Less accumulated depreciation	(105,386)	358	-	(105,744)
PROPRIETARY ACTIVITIES CAPITAL NET	<u>\$ 358</u>	<u>\$ (358)</u>	<u>\$ -</u>	<u>\$ -</u>

DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 30,602
Student support services	6,024
Staff support services	338
District administration	64,777
School administration	79
Business support services	-
Plant operation/maintenance	83,924
Student transportation	-
Community services	-
Total	<u>\$ 185,744</u>

PINEVILLE INDEPENDENT SCHOOL
Pineville, Kentucky
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

Fiscal Year	Local Responsibility				SFCC Responsibility				QZAB Interest
	Series	2012-REF Interest	Series	2014-REF Interest	Series	2012-REF Interest	Series	2014-REF Interest	
	2012-REF		2014-REF		2012-REF		2014-REF		
Ending June 30									
2018	85,934	14,663	177,724	86,308	4,066	656	22,276	8,880	61,356
2019	85,846	12,837	187,279	82,753	4,154	569	22,721	8,434	58,630
2020	90,753	10,851	186,823	79,008	4,247	474	23,177	7,980	55,550
2021	90,650	8,697	186,360	75,271	4,350	372	23,640	7,516	52,399
2022	95,540	6,369	190,888	71,544	4,460	262	24,112	7,044	48,991
2023	95,425	3,923	200,284	66,772	4,575	146	24,716	6,441	45,463
2024	101,716	1,335	194,667	61,765	3,284	43	25,333	5,823	41,960
2025	-	-	284,034	56,898	-	-	25,966	5,190	37,840
2026	-	-	293,253	48,377	-	-	26,747	4,411	32,415
2027	-	-	302,451	39,579	-	-	27,549	3,608	26,815
2028	-	-	306,625	30,506	-	-	28,375	2,782	20,694
2029	-	-	325,774	21,307	-	-	29,226	1,931	14,053
2030	-	-	329,825	10,719	-	-	30,175	981	7,123
	\$ 645,864	\$ 58,675	\$ 3,165,987	\$ 730,807	\$ 29,136	\$ 2,522	\$ 334,013	\$ 71,021	\$ 503,289

KISTA Capital Lease Payments

	2009-C		2014 KSBIT	
	principal	interest	principal	interest
2018	10,280	971	10,394	2,387
2019	8,968	637	10,613	2,169
2020	9,274	334	10,843	1,938
2021	-	-	11,127	1,655
2022	-	-	11,466	1,316
2023	-	-	11,815	967
2024	-	-	12,182	599
2025	-	-	12,577	204
	\$ 28,522	\$ 1,942	\$ 91,017	\$ 11,235

A summary of changes in long-term debt (District responsibility) is as follows:

	Balance 6/30/2016		Balance 6/30/2017	
	Series	Additions	Retirements	
2012 Ref		\$ -	\$ (86,014)	\$ 645,864
2014 Ref		-	(173,160)	3,165,987
2009 Cap Lease		-	(9,974)	28,522
KSBIT Cap Lease		-	(10,189)	91,017
		\$ -	\$ (279,337)	\$ 3,931,390

PINEVILLE INDEPENDENT SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS - PINEVILLE HIGH SCHOOL
June 30, 2017

	Beginning Cash July 1, 2016	Receipts and Transfers	Disbursements and Transfers	Ending Cash June 30, 2017
Miscellaneous	(8,804)	10,400	17,011	(15,415)
Athletics	30,529	45,689	58,313	17,905
BETA/NHS	244	483	1,095	(368)
AP Exams	-	336	(336)	672
Laurel Bowl	9,707	14,805	1,418	23,094
K-8 Basketball	(1,950)	-	2,280	(4,230)
K-4 Cheerleaders	(99)	-	105	(204)
5/6 Cheerleaders	-	1,159	1,621	(462)
Varsity Cheerleaders	845	10,048	12,175	(1,282)
Baseball	(3,844)	7,586	1,815	1,927
Middle School Cheer	877	1,066	2,202	(259)
Boys Basketball	(8,604)	5,460	11,911	(15,055)
Football	(16,302)	16,683	7,262	(6,881)
K-8 Football	(962)	200	1,438	(2,200)
Girls Basketball	(6,311)	2,340	8,662	(12,633)
Golf	(30)	160	862	(732)
Softball	(275)	392	2,853	(2,736)
Tennis	(69)	239	332	(163)
Track	(230)	230	420	(420)
Band	(48)	48	-	-
Home Economics	(276)	-	-	(276)
Key Club	49	-	-	49
Class of 2020	6,137	-	6,100	37
Class of 2017	5,134	46,231	52,126	(761)
Class of 2018	5,688	4,921	1,401	9,208
Class of 2019	-	3,043	931	2,112
Yearbook	2,918	3,522	2,517	3,923
Middle School	1,990	8,384	8,832	1,542
Project Graduation	436	7,055	7,369	122
Color Pro	(17)	418	868	(467)
Humanities/Drama	523	949	529	943
Concession	5,449	18,055	9,701	13,803
RadioRama	-	3,480	-	3,480
SPED	121	-	-	121
Spanish Club	155	495	495	155
Middle School Baseball	643	246	445	444
FBLA	(6)	-	150	(156)
Cross Country Track	211	-	90	121
Choir	50	-	-	50
Pineville Classic Basketball	(980)	-	-	(980)
Pineville High School	<u>\$ 22,899</u>	<u>\$ 214,123</u>	<u>\$ 222,993</u>	<u>\$ 14,029</u>
Pineville Elementary	<u>18,800</u>	<u>16,038</u>	<u>17,575</u>	<u>17,263</u>
Total	<u><u>\$ 41,699</u></u>	<u><u>\$ 230,161</u></u>	<u><u>\$ 240,568</u></u>	<u><u>\$ 31,292</u></u>

PINEVILLE INDEPENDENT SCHOOL
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
for the year ended June 30, 2017

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 472,033	\$ 479,170	\$ 7,137
Other local sources	21,810	25,698	3,888
State sources (see Note L)	2,439,098	3,441,410	1,002,312
Other sources	26,000	32,155	6,155
	<hr/>	<hr/>	<hr/>
Total revenues	2,958,941	3,978,433	1,019,492
Expenditures			
Instructional	1,600,666	2,106,312	(505,646)
Student support services	212,409	310,226	(97,817)
Staff support services	109,241	135,528	(26,287)
District administration	283,435	297,188	(13,753)
School administration	134,572	174,261	(39,689)
Business support services	74,767	133,545	(58,778)
Plant operation/maintenance	451,601	487,459	(35,858)
Student transportation	85,617	96,109	(10,492)
Debt service	25,000	24,022	978
	<hr/>	<hr/>	<hr/>
Total expenditures	2,977,308	3,764,650	(787,342)
Excess of revenues over (expenditures)	(18,367)	213,783	232,150
Operating transfers in	-	-	-
Operating transfers out	(13,000)	(22,222)	(9,222)
Net other revenues (expenditures)	(13,000)	(22,222)	(9,222)
	<hr/>	<hr/>	<hr/>
Net increase (decrease) in fund balance	(31,367)	191,561	222,928
Fund balance July 1, 2016	31,367	114,918	83,551
	<hr/>	<hr/>	<hr/>
Fund balance June 30, 2017	\$ -	\$ 306,479	\$ 306,479
	<hr/>	<hr/>	<hr/>

PINEVILLE INDEPENDENT SCHOOL
BUDGETARY COMPARISON SCHEDULE FOR SPECIAL REVENUE FUND
for the year ended June 30, 2017

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
State sources (see Note L)	\$ 252,958	\$ 277,597	\$ 24,639
Local sources	-	12,478	
Federal sources	449,776	433,683	(16,093)
Total revenues	702,734	723,758	21,024
Expenditures			
Instructional	530,064	565,193	(35,129)
Student support services	34,290	27,858	6,432
Staff support services	70,833	73,510	(2,677)
Student transportation	5,755	5,822	
District administration	13,000	10,597	2,403
Community service operations	61,792	61,792	-
Total expenditures	715,734	744,772	(29,038)
Excess of revenues over expenditures	(13,000)	(21,014)	(8,014)
Operating transfer in	13,000	21,014	5,884
Net change in fund balance	-	-	-
Fund balance July 1, 2016	-	-	-
Fund balance June 30, 2017	\$ -	\$ -	\$ -

**PINEVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF CERS NET PENSION LIABILITY**

June 30, 2017

Measurement date June 30	2016	2015	2014
District's proportion of the net pension liability	0.02024%	0.021236%	0.022624%
District's proportionate share of the net pension liability	996,547	913,039	734,000
District's covered employee payroll	465,032	552,114	540,043
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	214.30%	165.40%	135.92%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	62.40%	66.80%

*The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to reflect information for 10 years. Additional years will be displayed as they become available.

**PINEVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS**

June 30, 2017

Measurement date June 30	2016	2015	2014
Contractually required amount	\$ 86,415	\$ 63,171	\$ 61,844
Contributions in relation to the contractually required contribution	\$ (86,415)	\$ (63,171)	\$ (61,844)
Contribution deficiency (excess)	0	0	0
District's covered-employee payroll	\$ 465,032	\$ 552,114	\$ 540,043
Contributions as a percentage of covered-employee payroll	18.58%	8.74%	8.73%

*The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to reflect information for 10 years. Additional years will be displayed as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS

Changes of benefit terms: There have been no changes in benefit terms during the period covered by the required supplementary information (2014 and 2015)

Changes of assumptions: (2015)

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00 % to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used in the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females).

For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

Period covered by the required supplementary information: GASB Statement No. 68,

"Accounting and Financial Reporting for Pensions", an amendment to GASB Statement No. 27, required the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

**PINEVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF KTRS NET PENSION LIABILITY**

June 30, 2017

Measurement date June 30	2016	2015	2014
District's proportion of the net pension liability	0.0000%	0.0000%	0.0000%
District's proportionate share of the net pension liability	0	0	0
Commonwealth's proportionate share of the net pension liability associated with the District	\$ 19,136,720	\$ 16,426,739	\$ 16,129,543
District's covered employee payroll	\$ 1,986,048	\$ 2,270,943	\$ 2,803,454
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0	0.00%
Plan fiduciary net position as a percentage of the total pension liability	35.20%	41.06%	45.59%

*The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to reflect information for 10 years. Additional years will be displayed as they become available.

**PINEVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS TO KTRS**

June 30, 2017

Measurement date June 30	2016	2015	2014
Contractually required amount	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	\$ 314,876	\$ 109,562	\$ 100,991
Contribution deficiency (excess)	0	0	0
District's covered-employee payroll	\$ 1,986,048	\$ 2,270,943	\$ 2,803,454
Contributions as a percentage of covered-employee payroll	0.00%	4.82%	0.00%

*The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to reflect information for 10 years. Additional years will be displayed as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - KTRS

Changes of benefit terms: There have been no changes in benefit terms during the period covered by the required supplementary information (2014 and 2015).

Changes of assumptions:

The expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table.

Period covered by the required supplementary information: GASB Statement No. 68,

"Accounting and Financial Reporting for Pensions", an amendment to GASB Statement No. 27, required the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

PINEVILLE INDEPENDENT SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor Pass-Through Grantor Program Title	CFDA Number	Passthrough/ MUNIS	Current Year Expenses
United States Department of Agriculture Passed through KY Department of Education			
<i>Child Nutrition Cluster</i>			
National School Breakfast Program	10.553	7760005-16	95,709
National School Lunch Program	10.555	7750002-16	203,833
Summer Food Service Program	10.559	7740023-16	15,364
Passed through KY Department of Agriculture Non-monetary food donations	10.550	510-4950	18,873
Child Nutrition Cluster Total			333,779
United States Department of Education Passed through KY Department of Education			
<i>Title I Cluster</i>			
Title I Grants to Local Educational Agencies	84.010	310A/310B/310C	298,740
<i>Special Education Cluster</i>			
Special Education Grants to States - IDEA Basic	84.027A	337A/337B/337C	77,782
Special Education Grants to States - IDEA Preschool	84.173	343B/343C	3,955
Special Education Cluster Total			380,477
Improving Teacher Quality	84.367	401B	11,860
Impact Aid Program	84.041	27-KY-2017-2905	11,841
Total United States Department of Education			404,178
LINKS	84.215G	S215G160112	73,712
Total Expenditures of Federal Awards			\$ 811,669

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

*Audited as a major program under the requirements of Uniform Guidance.

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

The District has elected not to use the 10% de minimis cost rate allowed under Uniform Guidance.

The following CFDA numbers are considered cluster programs:

Special Education Cluster	84.027
	84.173
Child Nutrition Cluster	10.555
	10.553
	10.559

PINEVILLE INDEPENDENT SCHOOL
Pineville, Kentucky

BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
June 30, 2017

BOARD MEMBERS

Ann Combs Gaines, chair
James Golden, chair
Josh Howard
Clark Jones, vice chair
Mary Steele

ADMINISTRATIVE PERSONNEL

Russell Thompson, Superintendent
Anita Taylor, Finance Officer

BARRY D. DAULTON, CPA, PSC

Certified Public Accountant

423 East Mount Vernon Street

P.O. Box 1424

Somerset, Kentucky 42502

(606) 679-9344

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Pineville Independent Schools
Pineville, Kentucky 40977

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Kentucky State Committee for School District Audits Kentucky Public School Districts' Audit Contract Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pineville Independent Schools as of and for the year ended June 30, 2017, which collectively comprise the District's basic financial statements and have issued my report thereon dated November 8, 2017.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky State Committee for School District Audits Kentucky Public School Districts' Audit Contract Requirements. There were additional matters communicated to the auditee in the management letter.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
November 8, 2017

BARRY D. DAULTON, CPA, PSC

Certified Public Accountant

423 East Mount Vernon Street

P.O. Box 1424

Somerset, Kentucky 42502

(606) 679-9344

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Kentucky State Committee for School District Audits
Members of the Board of Education
Pineville Independent Schools
Pineville, Kentucky 40977

Report on Compliance for Each Major Federal Program

I have audited the Pineville Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Kentucky State Committee for School District Audits Kentucky Public School Districts' Audit Contract Requirements. Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In my opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
November 8, 2017

PINEVILLE INDEPENDENT SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2017

SUMMARY OF AUDITOR'S RESULTS

	<u>YES</u>	<u>NO</u>
FINANCIAL STATEMENTS		
Type of auditors' report issued	unmodified	
Internal control over financial reporting:		
Material weakness identified		<u>x</u>
Significant deficiencies identified that are not considered to be material weaknesses		<u>none reported</u>
Noncompliance material to financial statements		<u>x</u>

FEDERAL AWARDS

Internal control over major programs:		
Material weaknesses identified		<u>x</u>
Significant deficiencies identified that are not considered to be material weaknesses		<u>none reported</u>
Type of auditors' report issued on compliance for major programs	unmodified	
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance		<u>x</u>

IDENTIFICATION OF MAJOR PROGRAMS

National School Breakfast Program	10.553	
National School Lunch Program	10.555	
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000	
Auditee qualified as low risk	<u>x</u>	

FINANCIAL STATEMENTS FINDINGS

None

FEDERAL AWARD FINDINGS

None

PINEVILLE INDEPENDENT SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2017

There are no prior audit findings.

BARRY D. DAULTON, CPA, PSC
Certified Public Accountant
423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

MANAGEMENT LETTER

November 8, 2017

Superintendent and Members of the Board of Education
Pineville Independent School District
Pineville, Kentucky 40977

In planning and performing my audit of the financial statements of Pineville Independent School District for the year ended June 30, 2016, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, during my audit, I became aware of some matters that are opportunities to strengthen internal controls and operate in a more efficient manner.

Current Year Comments – School Activity Funds

Pineville Elementary School

- 1) There was no budget for individual activity fund accounts, as well as no Principal's combining budget. Red Book requirements stipulate preparation of budgets on an annual basis. This allows for greater accountability of student activity funds.
- 2) Multiple receipt forms are not utilized properly or consistently. Proper use of the Red Book forms assists in the prevention of fraud and theft.

Pineville High School

- 1) There was no budget for individual activity fund accounts, as well as no Principal's combining budget. Red Book requirements stipulate preparation of budgets on an annual basis. This allows for greater accountability of student activity funds.
- 2) Multiple receipt forms are not utilized properly or consistently. Proper use of the Red Book forms assists in the prevention of fraud and theft.
- 3) No inventory is maintained for concession items, even though there are deposits for concession receipts. Proper use of the Red Book forms assists in the prevention of fraud and theft.
- 4) Several payments to vendors contain little or no documentation; it is important to maintain vendor invoices or other documentation for greater accountability of student activity funds.
- 5) In one instance, thousands of dollars in cash was given to a group sponsor for travel expenses. A large portion of the cash was redeposited at a later date, however no documentation was maintained for the cash spent. The sponsor was able to provide a handwritten list of approximate amounts based on the number of students on the trip. Cash should never be used for such purposes, as it creates unnecessary liability for both the District and the club sponsor.

- 6) Numerous individual activity accounts ended the year with significant negative balances, which is not allowed. This is due in part to the failure to prepare individual and combining budgets.

I recommend that all activity fund clerks, as well as the Principal, attend additional Red Book training in order to be reacquainted with proper procedures for student activity funds.

Prior Year Comments – General Fund

- 1) Prior year comments regarding the general fund have been addressed and corrected. There are no current year comments regarding the general fund.

I wish to thank the personnel for their support and assistance during the audit.

This report is intended solely for the information and use of the Board and management of Pineville Independent School District.

Sincerely,

Barry D. Daughton, CPA, PSC